



**1980
ANNUAL
REPORT**



Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Edmonton Plaza Hotel, Edmonton, Alberta, at 11:00 a.m. on Friday, May 1, 1981.



AND SUBSIDIARY COMPANIES

O P I LTD.
(Incorporated Under the Laws of Alberta)
1980 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

	1980	1979
REVENUES	\$42,571,000	\$25,271,000
NET EARNINGS	6,767,000	4,093,000
CASH FLOW	11,578,000	7,139,000
CAPITAL EXPENDITURES	17,759,000	7,443,000
SHAREHOLDERS' EQUITY	18,864,000	13,080,000
RETURN ON AVERAGE SHAREHOLDERS' EQUITY	42%	38%
PER SHARE		
Net Earnings	\$3.03	\$1.83
Cash Flow	5.18	3.20
Shareholders' Equity	8.44	5.86

PROFILE

O P I Ltd. is a diversified North American energy resource service company with headquarters in Edmonton, Alberta, Canada. O P I and its subsidiaries manufacture and market products and furnish services for the drilling, completion and workover of oil and gas wells. Principal customers include drilling and well servicing contractors and major and independent oil companies. Plants are located in Edmonton, Alberta, and Odessa, Texas. The company's shares are listed on the Toronto Stock Exchange.



DIRECTORS' REPORT

The Board of Directors submits herewith the Annual Report of your Company for the year ended December 31, 1980 together with the financial statements and the report of your Auditors.

The past year was one of substantial growth and development for your Company. Revenues increased to \$42,571,000 from \$25,271,000 in 1979. Net earnings were \$6,767,000, an increase of 65% over comparable 1979 earnings of \$4,093,000. Earnings per share were \$3.03 compared to \$1.83 in 1979.

The buoyant activity of the North American oil and gas industry in 1980 permitted all four operating divisions to significantly increase revenues and earnings. Investment tax credits claimed by both O P I Ltd. and O P I Inc. resulted in an effective tax rate slightly lower than that of 1979 and more than offset the surtax imposed by the Canadian Government.

In 1980 all divisions continued their emphasis on internal expansion. Capital expenditures were \$17,759,000 compared to \$7,443,000 in 1979. Your Company is budgeting for continued capital expenditures for 1981, particularly to increase manufacturing capacity.

Oil Patch Rentals continued its program of upgrading and adding to its rental inventory. Cougar Tool expanded its rental inventory, particularly for the United States and the Far East, and introduced its rental jar for the first time in these areas.

The O P I Pump Division continued to expand its product lines and manufacturing capacity in both the United States and Canada. The expansion, when completed in mid 1981, will result in a tripling of productive capacity.

The physical plants in both Edmonton and Odessa were expanded and the Cougar Tool division acquired its own facilities in Edmonton consisting of a 17,000 square foot building on approximately two acres of land.

On October 28, 1980 the Canadian Government tabled its National Energy Program and Federal Budget. It is too early to assess the full impact of these measures on the Canadian oil and gas industry. However, if the movement of rigs to the U.S.A., together with the rigs presently not working is any indication, industry activity will be severely curtailed. The duration of the slowdown will be dependent on changes to the Program, the loss of equipment, men and knowledge and worldwide economic alternatives.

The effect on O P I Ltd. will be felt most noticeably by the Oil Patch Rental Division since all of its business is presently in Canada. The employment of a portion of its rental inventory outside Canada is presently being explored. The Cougar Tool division will also be affected in Canada but as its business is still growing outside of Canada, it is expected that its results will be satisfactory. The O P I Machine Shop, our smallest division, is expanding its capacity to include pump manufacturing and it is expected that its revenue and earnings will increase in 1981.



AND SUBSIDIARY COMPANIES

The offset to the anticipated decline in business in Canada will be a significant increase in business by our Pump Division in Odessa, Texas. In 1978 and 1979 we spent a considerable amount of money in developing new pumps and improving existing lines, and cautiously expanding our productive capacity. In 1980 we commenced a plant and equipment expansion which will almost triple our capacity by mid 1981. At the same time the demand for our pumps necessitated that we sub-contract their manufacture to others. The latter step, while eroding our overall margins, will enable us to satisfy our customers and contribute nominally to earnings.

We are not optimistic that the Canadian scene will improve materially in the immediate future. However, we have attempted to position ourselves in non-Canadian markets. Capital expenditures budgeted for 1981 will approximate \$13,000,000. Our operating budget for 1981 shows over 50% of our earnings being generated outside Canada. We will not be able to repeat the high percentage earnings growth rate enjoyed in 1980, however, we do expect a substantial growth in volumes and a satisfactory growth in earnings for 1981 with most of the improvement occurring in the second half.

Capital spending in 1980 was \$17,759,000, and currently budgeted expenditures for 1981 are \$13,000,000. In view of these commitments, high interest rates and the uncertainty in the Canadian energy scene, the Directors have decided not to pay quarterly dividends.

In 1980, Mr. Barron Kidd, founder of O P I Ltd. retired from the Board after seventeen years of dedicated service. Mr. Kidd's invaluable guidance contributed significantly to our growth and success. We will continue to enjoy the benefit of his counsel as he has agreed to be Honorary Chairman.

We welcome to our Board Mr. Barron Ulmer Kidd, independent oil producer from Dallas, Texas.

The Directors wish to express their appreciation to all employees for their efforts which have contributed so much to the Company's success.

Respectfully submitted on behalf of the Board of Directors.

F. N. HUGHES
CHAIRMAN

L. C. GARRIES
PRESIDENT

February 28, 1981



AND SUBSIDIARY COMPANIES

FIVE YEAR REVIEW

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	
	1980	1979	1978	1977	1976
FINANCIAL RESULTS					
Revenue	\$42,571,000	\$25,271,000	\$18,231,000	\$13,360,000	\$10,962,000
Earnings from operations	6,767,000	4,093,000	2,986,000	1,709,000	923,000
Net earnings	6,767,000	4,093,000	2,776,000	1,693,000	1,129,000
Depreciation and amortization	3,477,000	2,305,000	1,874,000	1,209,000	1,095,000
Cash flow from operations	11,578,000	7,139,000	5,212,000	3,043,000	2,171,000
Capital expenditures—net	16,546,000	7,074,000	5,295,000	1,608,000	988,000
Dividends	983,000	168,000	1,422,000	276,000	99,000
YEAR END POSITION					
Working capital	\$ 7,019,000	\$ 4,423,000	\$ 3,875,000	\$ 3,378,000	\$ 2,416,000
Property, plant and equipment — net	27,434,000	14,041,000	9,372,000	6,025,000	5,518,000
Total assets	51,818,000	28,943,000	20,157,000	11,725,000	11,577,000
Long-term debt	12,755,000	4,221,000	3,572,000	1,289,000	1,893,000
Shareholders' equity	18,864,000	13,080,000	8,728,000	6,953,000	5,536,000
STATISTICS PER SHARE					
Earnings from operations	\$ 3.03	\$ 1.83	\$ 1.36	\$.78	\$.42
Net earnings	3.03	1.83	1.26	.77	.51
Dividends	.44	.08	.65	.13	.05
Cash flow from operations	5.18	3.20	2.37	1.38	.99
Shareholders' equity	8.44	5.86	3.96	3.16	2.51



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
REVENUE	<u>\$42,571,000</u>	<u>\$25,271,000</u>
COSTS AND EXPENSES		
Cost of sales and other expenses	26,145,000	15,442,000
Interest on long-term debt	1,138,000	405,000
Other interest	765,000	355,000
Depreciation and amortization	<u>3,477,000</u>	<u>2,305,000</u>
	<u>31,525,000</u>	<u>18,507,000</u>
Earnings before income taxes	<u>11,046,000</u>	<u>6,764,000</u>
Income taxes		
Current	2,621,000	2,030,000
Deferred	<u>1,658,000</u>	<u>641,000</u>
	<u>4,279,000</u>	<u>2,671,000</u>
NET EARNINGS	6,767,000	4,093,000
Retained earnings at beginning of year	<u>10,540,000</u>	<u>6,615,000</u>
	17,307,000	10,708,000
Dividends	<u>983,000</u>	<u>168,000</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$16,324,000</u>	<u>\$10,540,000</u>
EARNINGS PER SHARE	<u>\$3.03</u>	<u>\$1.83</u>



AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1980

ASSETS

	1980	1979
CURRENT ASSETS		
Cash	\$ 32,000	\$ 1,822,000
Accounts receivable	10,528,000	5,569,000
Inventories		
Raw materials	2,659,000	1,735,000
Work-in-progress	3,950,000	1,438,000
Finished goods	6,105,000	3,236,000
Prepaid expenses	<u>204,000</u>	<u>183,000</u>
	23,478,000	13,983,000
PROPERTY, PLANT AND EQUIPMENT (Note 2)	27,434,000	14,041,000
OTHER ASSETS (Note 3)	906,000	919,000
	<u>\$51,818,000</u>	<u>\$28,943,000</u>

Signed on behalf of the Board

F. N. HUGHES
Director

L. C. GARRIES
President



CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1980

LIABILITIES

	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	\$ 3,123,000	\$ 3,273,000
Accounts payable and accrued liabilities	9,599,000	4,264,000
Income taxes	644,000	1,182,000
Current maturities on long-term debt	<u>3,093,000</u>	<u>841,000</u>
	<u>16,459,000</u>	<u>9,560,000</u>
 LONG-TERM DEBT (Note 4)	 <u>12,755,000</u>	 <u>4,221,000</u>
 DEFERRED INCOME TAXES	 <u>3,740,000</u>	 <u>2,082,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 5)		
Authorized		
4,000,000 Common shares of no par value		
 Issued		
2,234,072 Shares	2,540,000	2,540,000
 RETAINED EARNINGS	 <u>16,324,000</u>	 <u>10,540,000</u>
	<u>18,864,000</u>	<u>13,080,000</u>
	<u>\$51,818,000</u>	<u>\$28,943,000</u>



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
From operations	\$11,578,000	\$ 7,139,000
Sale of property, plant and equipment	1,213,000	369,000
Long-term borrowings	11,680,000	1,936,000
Issue of share capital	—	427,000
Other assets	13,000	—
	<u>24,484,000</u>	<u>9,871,000</u>
APPLICATION OF WORKING CAPITAL		
Purchase of property, plant and equipment	17,759,000	7,443,000
Long-term debt	3,146,000	1,287,000
Dividends	983,000	168,000
Other assets	—	425,000
	<u>21,888,000</u>	<u>9,323,000</u>
INCREASE IN WORKING CAPITAL	2,596,000	548,000
Working capital at beginning of year	<u>4,423,000</u>	<u>3,875,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 7,019,000</u>	<u>\$ 4,423,000</u>



NOTES TO 1980 CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

(b) Foreign exchange

The accounts of the company's foreign subsidiaries have been converted to Canadian dollars on the following basis:

1. Current assets and current liabilities, at the rate of exchange at the balance sheet date.
2. Other assets and liabilities at historical rates of exchange.
3. Revenue and expenses (except depreciation) at the average rate of exchange for the year.

Gains on exchange conversion are included in earnings.

(c) Valuation of inventories

Raw materials and work-in-progress are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Investment

The investment in non-marketable securities is carried at cost.

(e) Depreciation

Depreciation has been provided using the straight-line method for all assets, except certain rental equipment where depreciation is provided using the declining balance method, at rates calculated to amortize the cost of the assets, less salvage value, over their estimated useful life. Rental equipment off shore North America is depreciated on the straight line basis over three years. Rates in use for the principal classes of assets are:

Land improvements	20%
Buildings	5%
Rental equipment	6% to 33%
Manufacturing equipment, furniture and fixtures	10% and 20%
Automotive	25%
Other	6%

(f) Income taxes

The tax allocation method of accounting for income taxes is followed whereby tax provisions are based on the income shown in the accounts and taxes relating to timing differences (mainly depreciation) between accounting income and taxable income are deferred. Investment tax credits are recorded in the year of the related capital expenditures by a reduction of income taxes expense.



AND SUBSIDIARY COMPANIES

NOTES TO 1980 CONSOLIDATED FINANCIAL STATEMENTS

2. PROPERTY, PLANT AND EQUIPMENT

		1980		1979
	Cost	Accumulated Depreciation	Net	Net
Land and improvements	\$ 1,016,000	\$ 67,000	\$ 949,000	\$ 158,000
Buildings	5,156,000	728,000	4,428,000	2,087,000
Rental equipment	19,980,000	6,966,000	13,014,000	9,106,000
Manufacturing equipment, furniture and fixtures	10,911,000	2,218,000	8,693,000	2,428,000
Automotive equipment	604,000	301,000	303,000	209,000
Other	146,000	99,000	47,000	53,000
	<u>\$37,813,000</u>	<u>\$10,379,000</u>	<u>\$27,434,000</u>	<u>\$14,041,000</u>

3. OTHER ASSETS

	1980	1979
Secured promissory note receivable from an officer, non interest bearing, due 1989	\$ 412,000	\$ 425,000
Investment in non-marketable securities	<u>494,000</u>	<u>494,000</u>
	<u>\$ 906,000</u>	<u>\$ 919,000</u>



NOTES TO 1980 CONSOLIDATED FINANCIAL STATEMENTS

4. LONG-TERM DEBT

	1980	1979
Term loan, interest at 1% over Canadian prime rate	\$ 7,500,000	\$ 2,500,000
Term loans, interest at 1% over United States prime rate	7,692,000	1,863,000
9% and 11½% mortgages	656,000	687,000
Other	<u>—</u>	<u>12,000</u>
	15,848,000	5,062,000
Current maturities	<u>3,093,000</u>	<u>841,000</u>
	<u>\$12,755,000</u>	<u>\$ 4,221,000</u>

All Canadian indebtedness is secured by Canadian receivables, inventories, property, plant, and equipment and other assets as evidenced by a debenture and is amortized by monthly payments.

The United States indebtedness is secured by United States receivables, inventories, property, plant and equipment and other assets and is amortized by monthly payments.

The estimated minimum principal payments required in the four years subsequent to 1981 are:

1982	\$ 3,077,000	1984	\$ 3,085,000
1983	\$ 3,080,000	1985	\$ 3,089,000

5. CAPITAL STOCK

At a meeting of the shareholders of the Company on May 2, 1980, approval was given to special resolutions whereby the authorized capital stock consisting of 2,000,000 Class A Common Shares and 2,000,000 Class B Common Shares was consolidated into 4,000,000 Common Shares without nominal or par value and all of the issued Common Shares of the Company, being 1,117,036 Common Shares were converted into 2,234,072 Common Shares without nominal or par value.



AND SUBSIDIARY COMPANIES

NOTES TO 1980 CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENTED INFORMATION

The following table summarizes the company's revenues, earnings before taxes and identifiable assets by geographic area for 1980 and 1979:

	1980	UNITED STATES	ELIMINATIONS	TOTAL
	CANADA			
REVENUES				
Domestic	\$19,228,000	\$17,511,000	\$ —	\$36,739,000
Export	<u>3,074,000</u>	<u>4,321,000</u>	<u>(1,563,000)</u>	<u>5,832,000</u>
Total	<u>\$22,302,000</u>	<u>\$21,832,000</u>	<u>\$(1,563,000)</u>	<u>\$42,571,000</u>
EARNINGS BEFORE TAXES	<u>\$ 7,832,000</u>	<u>\$ 3,290,000</u>	<u>\$ (76,000)</u>	<u>\$11,046,000</u>
IDENTIFIABLE ASSETS	<u>\$27,706,000</u>	<u>\$24,112,000</u>	<u>—</u>	<u>\$51,818,000</u>

	1979	UNITED STATES	ELIMINATIONS	TOTAL
	CANADA			
REVENUES				
Domestic	\$14,697,000	\$ 8,411,000	\$ —	\$23,108,000
Export	<u>1,035,000</u>	<u>2,191,000</u>	<u>(1,063,000)</u>	<u>2,163,000</u>
Total	<u>\$15,732,000</u>	<u>\$10,602,000</u>	<u>\$(1,063,000)</u>	<u>\$25,271,000</u>
EARNINGS BEFORE TAXES	<u>\$ 6,177,000</u>	<u>\$ 641,000</u>	<u>\$(54,000)</u>	<u>\$ 6,764,000</u>
IDENTIFIABLE ASSETS	<u>\$18,521,000</u>	<u>\$10,422,000</u>	<u>—</u>	<u>\$28,943,000</u>

7. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid to directors and senior officers was \$ 1,428,000 (1979 - \$674,000).



AND SUBSIDIARY COMPANIES

NOTES TO 1980 CONSOLIDATED FINANCIAL STATEMENTS

8. QUARTERLY INFORMATION (Unaudited)

1980

	REVENUES	NET EARNINGS	EARNINGS PER SHARE
First Quarter	\$ 8,740,000	\$ 1,453,000	\$.65
Second Quarter	9,824,000	1,302,000	.58
Third Quarter	11,319,000	1,821,000	.82
Fourth Quarter	<u>12,688,000</u>	<u>2,191,000</u>	<u>.98</u>
Year	<u>\$42,571,000</u>	<u>\$ 6,767,000</u>	<u>\$3.03</u>

1979

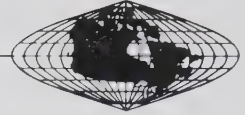
	REVENUES	NET EARNINGS	EARNINGS PER SHARE
First Quarter	\$ 6,535,000	\$ 1,038,000	\$.46
Second Quarter	5,515,000	725,000	.32
Third Quarter	6,188,000	976,000	.44
Fourth Quarter	<u>7,033,000</u>	<u>1,354,000</u>	<u>.61</u>
Year	<u>\$25,271,000</u>	<u>\$ 4,093,000</u>	<u>\$1.83</u>



AND SUBSIDIARY COMPANIES

**THORNE
RIDDELL**

Chartered Accountants



AUDITORS' REPORT

To the Shareholders of
O P I Ltd.

We have examined the consolidated balance sheet of O P I Ltd. as at December 31, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL

Edmonton, Alberta
February 28, 1981

Chartered Accountants



O P I LTD.

Directors

P. S. Bower **
L. C. Garries†
G. W. Davis†
Harry Hole **
F. N. Hughes†
Barron U. Kidd†
Doyle Little†
Bruce H. Lloyd†
Honorable E. C. Manning, P.C.
V. J. Moroney **
J. D. McLaughlin†
R. J. Pitt
L. F. Swonek†
G. W. Wright **
†Member of Executive Committee
** Member of Audit Committee

Carmel, California
Edmonton, Alberta
Toronto, Ontario
Edmonton, Alberta
Edmonton, Alberta
Dallas, Texas
Odessa, Texas
Willowdale, Ontario
Edmonton, Alberta
Calgary, Alberta
Midland, Texas
Calgary, Alberta
Edmonton, Alberta
Toronto, Ontario

Officers

O P I Ltd.

Honorary Chairman
Chairman
Vice Chairman
President
Executive Vice President and Secretary
Vice President and Manager—
Oil Patch Rental Division
Vice President and Manager—
O P I Machine Shop Division
Vice President and Manager —
Cougar Tool Division
Controller

Barron Kidd
F. N. Hughes
G. W. Davis
L. C. Garries
L. F. Swonek

D. I. McGinnis

A. Knak

R. L. Toole
J. E. Matheson

O P I INC.

Chairman
President
Senior Vice President — Sales & Engineering
Vice President — Corporate Planning
Vice President — Corporate Sales
Vice President — Engineering
Vice President — Manufacturing
Vice President — Material Handling
Controller

J. D. McLaughlin
Doyle Little
Larry Looper
Dan Worley
H. W. Kirby
John Lory
Larry Gorrell
Jim Inge
W. D. Martin

Offices and Plants

O P I Ltd. — 5105 - 75 Street, Edmonton, Alberta (403) 469-4431
O P I Inc. — 905 South Grandview, Odessa, Texas (915) 332-8515

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Exchange Listing

Toronto Stock Exchange

